SaskTel

# Third Quarter Report

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Saskatchewan Telecommunications Holding Corporation

Third Quarter Report 2011
For the Period Ending September 30, 2011

**Saskatchewan Telecommunications Holding Corporation** (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, offering a wide range of communications products and services including competitive voice, data, internet, entertainment, security monitoring, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 4,100 full time equivalent employees.

Our vision is "*Be the best at connecting people to their world.*" and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

# Financial Highlights

## Consolidated Net Income

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| Millions of dollars | **2011** | 2010 | % Change | **2011** | 2010 | % Change |
| Revenues | **$286.8** | $282.8 | 1.4 | **$826.4** | $821.7 | 0.6 |
| Other income | **1.4** | 1.8 | (22.2) | **3.1** | 8.5 | (63.5) |
| | **288.2** | 284.6 | 1.3 | **829.5** | 830.2 | (0.1) |
| Expenses | **248.4** | 232.3 | 6.9 | **739.7** | 705.4 | 4.9 |
| Results of operating activities | **39.8** | 52.3 | (23.9) | **89.8** | 124.8 | (28.0) |
| Net finance expense | **(0.7)** | (1.1) | (36.4) | **(8.3)** | (3.3) | 151.5 |
| Income from continuing operations | **39.1** | 51.2 | (23.6) | **81.5** | 121.5 | (32.9) |
| Net income from discontinued operations | **-** | 0.9 | (100.0) | **30.8** | 3.4 | *nmf*[1] |
| Net income | **$39.1** | $52.1 | (25.0) | **$112.3** | $124.9 | (10.1) |

Net income for the nine months ended September 30, 2011 is $112.3 million, down $12.6 million (10.1%) from the same period in 2010. Revenues increased to $826.4 million, up $4.7 million (0.6%) from the same period in 2010 primarily due to increased *Max*™, wireless, data, and internet revenues partially offset by reductions in local access and long distance revenues. Other income is $5.4 million lower than the same period in 2010 primarily due to PST refunds received in 2010, and reduced government funding received in 2011.

Expenses for the nine months ended September 30, 2011 increased to $739.7 million, up $34.3 million from the same period in 2010. This increase is primarily driven by increased hardware subsidies and *Max* content expenses, increased network maintenance costs and project related expenses. Depreciation and amortization has increased $8.3 million due to increased plant in service. Net finance expense was $8.3 million up $5.0 million from the same period in 2010. This is driven by reduced capitalized interest in the current period resulting from significantly lower plant under construction during the first nine months of 2011 as well as increased borrowings to fund the 2010 construction program.

Net income from discontinued operations is up $27.4 million from 2010 due to the gains realized on the sales of Hospitality Network Canada Inc. and Saskatoon 2 Properties Partnership in 2011.

[1] *nmf* – no meaningful figure

# Management Discussion and Analysis

## Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the third quarter 2011. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2010. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in SaskTel's 2010 annual report. These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34, "Interim Financial Reporting". These interim statements have been approved by the SaskTel Board of Directors.

## Adoption of International Financial Reporting Standards (IFRS)

Effective January 1, 2011, SaskTel has adopted IFRS as the basis for preparing consolidated financial statements. The condensed consolidated financial statements of SaskTel have been prepared in accordance with International Accounting Standard (IAS) 34: "Interim Financial Reporting". As this is SaskTel's first year of reporting under IFRS resulting in the first IFRS annual financial statements, IFRS 1: "First-time Adoption of International Financial Reporting Standards" has been applied in preparing these condensed consolidated financial statements. When preparing this financial report SaskTel has amended certain accounting and valuation methods applied in previous Canadian Generally Accepted Accounting Principles (Canadian GAAP) financial statements to comply with IFRS as discussed in Note 11 Transition to IFRS. Except for first time adoption exemptions and elections taken to transition to IFRS, all accounting policies are applied consistently throughout all periods presented in the interim financial statements. The comparative figures have been restated to reflect these adjustments.

Note 11 of the interim financial statements contains a detailed description of SaskTel's conversion to IFRS, including reconciliations of the financial statements previously prepared under Canadian GAAP to those prepared under IFRS for the three months and nine months ended September 30, 2010.

# Results of Operations

## Revenues

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$286.8** | $282.8 | $4.0 | 1.4 |
| Year-to-date | **$826.4** | $821.7 | $4.7 | 0.6 |

Revenues for the third quarter were $286.8 million, an increase of $4.0 million from the same period in 2010. Year-to-date operating revenues were $826.4 million which represents a $4.7 million increase from 2010. This increase is primarily driven by *Max*™ revenues due to increased number of customers and increased revenue per customer, wireless revenues due to increased number of customers, increased smartphone sales and data usage and internet revenues due to increased average revenue per unit from customers moving to more expensive plans, partially offset by decreased High Cost Serving Area subsidy revenue due to new rates, lower access revenue due to residential access decreases related to competition and wireless replacement, and decreases in long distance revenue.

## Other income

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$1.4** | $1.8 | $(0.4) | (22.2) |
| Year-to-date | **$3.1** | $8.5 | $(5.4) | (63.5) |

Other income for the third quarter of 2011 decreased to $1.4 million down $0.4 million from the same period in 2010. Year-to-date other income was $5.4 million lower than the same period in 2010 primarily due to PST refunds received in 2010 and reduced government funding received in 2011.

## Expenses

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$248.4** | $232.3 | $16.1 | 6.9 |
| Year-to-date | **$739.7** | $705.4 | $34.3 | 4.9 |

Expenses were $248.4 million for the third quarter, up $16.1 million from the same period in 2010. Year-to-date expenses increased to $739.7 million, up $34.3 million from 2010. This increase is primarily driven by increased hardware subsidies and *Max* content expenses, increased network maintenance costs and project related expenses, partially offset by decreased roaming expenses due to lower rates and usage. In addition, depreciation and amortization increased $8.3 million due to increased plant in service.

### Net financing expense

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$0.7** | $1.1 | $(0.4) | (36.4) |
| Year-to-date | **$8.3** | $3.3 | $5.0 | 151.5 |

Net financing expense for the third quarter of 2011 was $0.7 million down $0.4 million from the same period in 2010. Year-to-date net financing expense increased to $8.3 million from 2010. This is driven by reduced capitalized interest in the current period resulting from significantly lower plant under construction in 2011 compared to the same period in 2010 as well as increased borrowings to fund the 2010 construction program.

### Net income from discontinued operations

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$-** | $0.9 | $(0.9) | (100.0) |
| Year-to-date | **$30.8** | $3.4 | $27.4 | *nmf* |

Net income from discontinued operations for the third quarter of 2011 was down $0.9 million from the same period in 2010. Year-to-date net income from discontinued operations increased to $30.8 million up $27.4 million from 2010. In early 2010 plans were approved for the divestiture of Hospitality Network Canada Inc. and Saskatoon 2 Properties Partnership. These operations were classified as discontinued operations at that time and the operating activities were retroactively reclassified to net income from discontinued operations. During the first quarter of 2011 both entities were sold and the resulting gains reported in net income from discontinued operations as disclosed in Note 5 of the interim financial statements.

## Liquidity and Capital Resources

### Cash provided by operating activities

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$175.8** | $209.6 | $(33.8) | (16.1) |

Cash provided by operating activities for the nine months ended September 30, 2011 was down $33.8 million from the same period in 2010 primarily due to increased operating expenses.

## Cash used in investing activities

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$159.2** | $217.8 | $(58.6) | (26.9) |

Cash used in investing activities for the nine months ended September 30, 2011 decreased to $159.2 million, down $58.6 million from the same period in 2010 primarily due to planned capital spending reductions partially offset by increased spending on intangible assets.

SaskTel's net capital spending for the nine months ended September 30, 2011 was $129.6 million, down $78.2 million from the same period in 2010. Spending decreased primarily due to planned spending reductions on the cellular network upgrade to Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) technology and the Saskatchewan Infrastructure Improvement Program. SaskTel's spending on intangible assets was $29.5 million, up $15.8 million from the same period in 2010.

Capital expenditures for the balance of 2011 will focus on further investment in growth initiatives while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include: the completion of the cellular network upgrade to UMTS/HSPA technology, which will include significant initiatives to reduce network congestion; investment in Fiber to the Premise, which will significantly increase access speeds; network growth and refurbishment; further investment in *Max* Interactive Services; and improved high speed internet quality.

## Cash provided by (used in) financing activities

| Millions of dollars | 2011 | 2010 | Change | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$(92.2)** | $11.2 | $(103.4) | *nmf* |

Cash used in financing activities for the nine months ended September 30, 2011 was $92.2 million compared to cash provided by financing activities of $11.2 million in 2010. During 2011, short-term borrowings decreased by $9.4 million versus a net increase of $48.2 million for the same period in 2010. There was no significant long-term debt activity in 2011 as opposed to 2010, where SaskTel had an increase in long-term debt of $69.9 million due to a debt issue, partially offset by debt repayment net of sinking fund redemptions. In addition, SaskTel paid a dividend of $78.7 million to Crown Investment Corporation of Saskatchewan compared to $105.8 million for the same period in 2010.

## Liquidity and capital resource ratios

### Debt ratio

| | **September 30, 2011** | December 31, 2010 |
|---|---|---|
| Debt ratio | **39.2%** | 37.1% |

The debt ratio as at September 30, 2011 increased to 39.2% from 37.1% at December 31, 2010. The overall level of net debt decreased $7.3 million due to a decrease in notes payable and an increase in sinking funds. In addition,

retained earnings decreased by $68.7 million to the end of the third quarter after recording net income of $112.3 million, actuarial losses of $87.2 million and dividends of $93.8 million.

## 2011 Outlook

The 2010 SaskTel Annual Report identified a consolidated net income target for 2011 of $161.0 million. At this time SaskTel believes that it will fall short of the established 2011 net income target.

## Risk Assessment

The 2010 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in technology and the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity, cost management initiatives and more. SaskTel's basic risk profile remains unchanged as at September 30, 2011. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

# Condensed Consolidated Statement of Income and Other Comprehensive Income

| | | (Unaudited) | | | |
|---|---|---|---|---|---|
| | | Three months ended September 30, | | Nine months ended September 30, | |
| Thousands of dollars | Note | **2011** | 2010 | **2011** | 2010 |
| **Revenue** | 3 | **$286,802** | $282,772 | **$826,434** | $821,669 |
| **Other income** | 3 | **1,398** | 1,752 | **3,107** | 8,478 |
| | | **288,200** | 284,524 | **829,541** | 830,147 |
| **Expenses** | | | | | |
| Goods and services purchased | | **133,933** | 120,393 | **379,682** | 354,433 |
| Salaries, wages and benefits | | **78,899** | 77,943 | **249,147** | 249,957 |
| Depreciation | | **34,306** | 33,565 | **106,899** | 98,201 |
| Amortization of intangible assets | | **5,193** | 5,240 | **15,245** | 15,626 |
| Internal labour capitalized | | **(3,961)** | (4,804) | **(11,303)** | (12,793) |
| | | **248,370** | 232,337 | **739,670** | 705,424 |
| **Results of operating activities** | | **39,830** | 52,187 | **89,871** | 124,723 |
| **Net finance expense** | 4 | **(724)** | (1,083) | **(8,345)** | (3,286) |
| **Income from continuing operations** | | **39,106** | 51,104 | **81,526** | 121,437 |
| **Net income from discontinued operations** | 5 | **-** | 966 | **30,802** | 3,425 |
| **Net income** | | **39,106** | 52,070 | **112,328** | 124,862 |
| **Other comprehensive loss** | | | | | |
| Actuarial gains (losses) on employee benefit plans | 6 | **(54,281)** | 25,730 | **(87,228)** | (100,794) |
| **Comprehensive income (loss)** | | **$(15,175)** | $77,800 | **$25,100** | $24,068 |

All net income and comprehensive income (loss) is attributable to Crown Investments Corporation of Saskatchewan.

*See Accompanying Notes*

## Condensed Consolidated Statement of Changes in Equity

| For the nine months ended September 30 (Unaudited)<br>Thousands of dollars | Equity advances | Retained earnings | Total equity |
|---|---|---|---|
| **Balance at January 1, 2010** | $250,000 | $475,597 | $725,597 |
| **Net income** | - | 124,862 | 124,862 |
| **Other comprehensive loss** | - | (100,794) | (100,794) |
| **Total comprehensive income for the period** | - | 24,068 | 24,068 |
| **Dividends** | - | 123,525 | 123,525 |
| **Balance September 30, 2010** | $250,000 | $376,140 | $626,140 |
| **Balance at January 1, 2011** | $250,000 | $442,381 | $692,381 |
| **Net income** | - | 112,328 | 112,328 |
| **Other comprehensive loss** | - | (87,228) | (87,228) |
| **Total comprehensive income for the period** | - | 25,100 | 25,100 |
| **Dividends** | - | 93,758 | 93,758 |
| **Balance September 30, 2011** | $250,000 | $373,723 | $623,723 |

*See Accompanying Notes*

## Condensed Consolidated Statement of Financial Position

| As at<br>Thousands of dollars | Note | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$7,820** | $12,886 |
| Trade and other receivables | 8a | **91,637** | 105,316 |
| Inventories | 8a | **11,472** | 5,810 |
| Prepaid expenses | 8a | **18,271** | 8,907 |
| Assets classified as held for sale | 5 | **-** | 41,729 |
| | | **129,200** | 174,648 |
| **Sinking funds** | | **73,917** | 64,769 |
| **Property, plant and equipment** | | **1,201,562** | 1,162,143 |
| **Intangible assets** | | **134,390** | 137,151 |
| **Other assets** | | **11,533** | 8,692 |
| | | **$1,550,602** | $1,547,403 |
| **Liabilities and Province's equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8a | **$111,281** | $113,016 |
| Dividend payable | | **31,253** | 16,157 |
| Notes payable | | **50,500** | 59,900 |
| Services billed in advance | 8a | **59,328** | 55,657 |
| Liabilities classified as held for sale | 5 | **-** | 1,635 |
| | | **252,362** | 246,365 |
| **Employee benefits** | 6 | **195,034** | 126,047 |
| **Deferred revenue** | | **7,797** | 8,801 |
| **Deferred revenue – government funding** | | **38,770** | 41,053 |
| **Long-term debt** | | **432,916** | 432,756 |
| | | **926,879** | 855,022 |
| **Province of Saskatchewan's equity** | | | |
| Equity advance | | **250,000** | 250,000 |
| Retained earnings | | **373,723** | 442,381 |
| | | **623,723** | 692,381 |
| | | **$1,550,602** | $1,547,403 |

*See Accompanying Notes*

## Condensed Consolidated Statement of Cash Flows

| Thousands of dollars | Note | (Unaudited) Nine months ended September 30, 2011 | 2010 |
|---|---|---|---|
| **Operating activities** | | | |
| Income from continuing operations | | **$81,526** | $121,437 |
| Adjustments to reconcile net income to cash provided by operations | | | |
| Depreciation and amortization | | **122,144** | 113,827 |
| Contributions to defined benefit pension plans | | **(11,990)** | (12,345) |
| Pension income of defined benefit plans | | **(5,816)** | (582) |
| Net financing expense | 4 | **8,345** | 3,286 |
| Interest paid | | **(19,157)** | (18,910) |
| Interest received | | **1,207** | 1,015 |
| Amortization of government funding | | **(2,731)** | (2,215) |
| Other | | **5,526** | 9,198 |
| Net change in non-cash working capital | 8b | **(3,208)** | (5,135) |
| | | **175,846** | 209,576 |
| **Investing activities** | | | |
| Property, plant and equipment expenditures | | **(130,211)** | (209,204) |
| Intangible assets | | **(29,524)** | (13,695) |
| Redemption of preferred shares | | **-** | 3,733 |
| Government funding | | **565** | 1,321 |
| | | **(159,170)** | (217,845) |
| **Financing activities** | | | |
| Proceeds from long-term debt | | **-** | 148,670 |
| Repayment of long-term debt | | **-** | (90,000) |
| Sinking fund redemptions | | **-** | 11,260 |
| Proceeds from (repayment of) notes payable | | **(9,400)** | 48,200 |
| Dividends paid | | **(78,662)** | (105,826) |
| Sinking fund installments | | **(4,100)** | (1,100) |
| | | **(92,162)** | 11,204 |
| Increase (decrease) in cash from continuing operations | | **(75,486)** | 2,935 |
| Increase in cash from discontinued operations | 5 | **64,393** | 3,043 |
| Cash and cash equivalents, beginning of period | | **18,913** | 8,998 |
| **Cash and cash equivalents, end of period** | | **$7,820** | $14,976 |
| **Comprised of:** | | | |
| Cash of continuing operations | | **$7,820** | $9,191 |
| Cash of discontinued operations | | **-** | 5,785 |
| Cash and cash equivalents | | **$7,820** | $14,976 |

*See Accompanying Notes*

# Notes to Condensed Consolidated Financial Statements (Unaudited)
## As at September 30, 2011

### Note 1 – Basis of preparation

The unaudited condensed consolidated financial statements for September 30, 2011 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2010 audited consolidated financial statements prepared under Canadian Generally Accepted Accounting Principles (Canadian GAAP). The condensed consolidated financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34: "Interim Financial Reporting". These are the Corporation's first International Financial Reporting Standards (IFRS) condensed consolidated financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1: "First-time Adoption of International Financial Reporting Standards" (IFRS 1) has been applied. These condensed consolidated financial statements do not include all of the information required for full annual financial statements.

When preparing this financial report the Corporation has amended certain accounting and valuation methods applied in previous Canadian GAAP financial statements to comply with IFRS as discussed in Note 11 - Transition to IFRS. Except for IFRS 1 exemptions and elections taken to transition to IFRS, all accounting policies are applied consistently throughout all periods presented in the interim financial statements. The comparative figures have been restated to reflect these adjustments.

The condensed consolidated financial statements for the nine-month period ended September 30, 2011 were approved by the Board of Directors on November 15, 2011.

**a) Basis of measurement**

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following:

- Fair value through profit and loss financial instruments are measured at fair value, and
- The defined benefit liability is recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

**b) Functional and presentation currency**

These condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**c) Use of estimates and judgments**

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements includes the following:

- Classification of intangible assets – indefinite life, and
- Accounting for government funding.

*Note 1 – Basis of preparation, continued*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Useful lives and depreciation rates for property, plant and equipment,
- Useful lives and amortization rates for intangible assets, and
- Measurement of defined benefit obligations.

Effective July 1, 2011 the Corporation extended the useful life of certain assets to coincide with the revised exit date for the related technology. The impact is a reduction in depreciation expense of $4.2 million in the current year, a reduction in depreciation expense of $8.4 million in 2012 and 2013, and increases in depreciation expense in 2014 to 2016 of $6.5 million, $11.5 million and $2.9 million respectively.

## Note 2 – Summary of significant accounting policies

The accounting policies, as detailed in Note 2 to the Condensed Consolidated Financial Statements for the period ended March 31, 2011, have been applied consistently to all periods presented in these condensed consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by the Corporation and its subsidiaries.

The International Accounting Standards Board (IASB) plans to make revisions to or replace existing IFRS standards that may impact the Corporation. As such, the standards used to prepare these condensed consolidated financial statements may differ from those used to prepare the Corporation's consolidated financial statements for the year ended December 31, 2011. It is likely that the majority of the changes will be in effect subsequent to December 31, 2011 with the result that the impact to the Corporation of adopting IFRS will extend beyond its transitional year.

**New standards and interpretations not yet adopted**
Certain new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after December 31, 2011. The Corporation is assessing the impact of these pronouncements on its results and financial position. These include:

- IFRS 9 "Financial Instruments" (IFRS 9 (2010)) expands on IFRS 9 as issued in 2009. The 2010 version has a significant impact on financial liabilities designated under the fair value option. In addition, IFRS 9 (2010) retains virtually all of the classification and measurement guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 (2010) is effective for annual periods beginning on or after January 1, 2013.
- IFRS 10 "Consolidations" (IFRS 10) establishes a single control model to assess whether to consolidate an investee. The model focuses on exposure or rights to variability in returns versus the previous concept of benefits. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 11 "Joint Arrangements" (IFRS 11) redefines joint arrangements based on the control concept introduced in IFRS 10. Joint arrangements are classified depending on whether parties have rights to and obligations for underlying assets. In addition the standard requires a single method of accounting for joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 12 "Disclosure of Interests in Other Entities" (IFRS 12) combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

*Note 2 – Summary of significant accounting policies. continued*

- IFRS 13 "Fair Value Measurement" (IFRS 13) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.
- IAS 19 "Employee Benefits" (IAS 19) was amended to require immediate recognition of actuarial gains and losses, as well as revising the basis for the calculation of net interest on the net defined benefit asset or liability. In addition, disclosure requirements have been expanded. IAS 19 is effective for annual periods beginning on or after January 1, 2013.
- IAS 27 "Separate Financial Statements" (IAS 27) was amended to create one standard that deals with separate financial statements. Requirements related to consolidated financial statements have been moved to IFRS 10, and requirements related to joint ventures and associates have been relocated to this standard. IAS 27 is effective for annual periods beginning on or after January 1, 2013.
- IAS 28 "Investments in Associates and Joint Ventures" (IAS 28) was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. IAS 28 is effective for annual periods beginning on or after January 1, 2013.

## Note 3 – Revenue

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Thousands of dollars | **2011** | 2010 | **2011** | 2010 |
| **Services revenue** | | | | |
| Local service | **$68,378** | $71,839 | **$205,923** | $215,864 |
| Wireless | **107,762** | 103,811 | **305,181** | 299,426 |
| Max, internet and data services | **62,395** | 57,461 | **186,677** | 172,812 |
| Long distance services | **15,917** | 16,217 | **48,046** | 49,748 |
| Advertising and directory services | **13,732** | 13,789 | **23,643** | 23,783 |
| Security monitoring services | **5,017** | 4,816 | **14,896** | 14,125 |
| Telecommunication software | **2,784** | 3,654 | **9,112** | 9,922 |
| Other revenue | **10,817** | 11,185 | **32,956** | 35,989 |
| | **286,802** | 282,772 | **826,434** | 821,669 |
| **Other income** | | | | |
| Net gain (loss) on retirement or disposal of property, plant and equipment | **69** | 135 | **(1,390)** | (824) |
| Amortization of government funding | **1,238** | 295 | **2,731** | 2,215 |
| Government funding received | **-** | 813 | **-** | 2,438 |
| Provincial sales tax refund | **-** | - | **-** | 2,207 |
| Gain on redemption of preferred shares | **-** | - | **-** | 795 |
| Other | **91** | 509 | **1,766** | 1,647 |
| | **1,398** | 1,752 | **3,107** | 8,478 |
| Total revenue | **$288,200** | $284,524 | **$829,541** | $830,147 |

## Note 4 – Net finance expense

| Thousands of dollars | Three months ended September 30, 2011 | Three months ended September 30, 2010 | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|---|---|---|---|
| **Recognized in consolidated net income** | | | | |
| Interest income on unimpaired financial assets at fair value through net income | **$1,256** | $1,476 | **$3,117** | $3,244 |
| Net change in fair value of financial assets at fair value through net income | **2,336** | 1,199 | **1,930** | 2,431 |
| Interest income on loans and receivables | **471** | 315 | **1,211** | 1,010 |
| Finance income | **4,063** | 2,990 | **6,258** | 6,685 |
| Interest expense on financial liabilities measured at amortized cost | **(6,915)** | (6,790) | **(20,588)** | (19,101) |
| Interest capitalized | **2,128** | 2,717 | **5,985** | 9,130 |
| Finance expense | **(4,787)** | (4,073) | **(14,603)** | (9,971) |
| Net finance expense | **$(724)** | $(1,083) | **$(8,345)** | $(3,286) |
| Interest capitalization rate | | | **5.82%** | 6.82% |

## Note 5 – Discontinued operations

During the second quarter of 2010, the Corporation approved plans whereby the operations of Hospitality Network Canada, Inc. (Hospitality Network) and Saskatoon 2 Properties Limited Partnership (Saskatoon Square) were to be divested and the criteria for classification as discontinued operations had been met.

On January 4, 2011 the Corporation, through its subsidiaries, Saskatoon 2 Management Ltd. and Saskatoon 2 Properties Limited Partnership, sold its interest in the property known as Saskatoon Square for cash consideration of $34.4 million resulting in a gain of $27.0 million which has been included in net income from discontinued operations in the Condensed Consolidated Statement of Income and Other Comprehensive Income.

In addition, on January 31, 2011, the Corporation, through its subsidiary Hospitality Network Canada Inc. (Hospitality Network), disposed of the net assets of Hospitality Network for cash consideration of $35.9 million resulting in a gain of $3.7 million which has been included in net income from discontinued operations in the Condensed Consolidated Statement of Income and Other Comprehensive Income. Active operations of Hospitality Network have ceased as of that date.

# Notes to Condensed Consolidated Financial Statements (Unaudited)
## As at September 30, 2011

*Note 5 – Discontinued operations, continued*

The results of discontinued operations are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Thousands of dollars | **2011** | 2010 | **2011** | 2010 |
| **Hospitality Network** | | | | |
| Revenue | **$-** | $7,112 | **$2,530** | $22,841 |
| Expenses | **-** | 6,361 | **2,495** | 20,220 |
| Results of operating activities | **-** | 751 | **35** | 2,621 |
| Gain on sale of discontinued operation | **-** | - | **3,731** | - |
| **Saskatoon Square** | | | | |
| Share of operating income of equity accounted investee | **-** | 215 | **-** | 804 |
| Gain on sale of discontinued operation | **-** | - | **27,036** | - |
| Net income from discontinued operations | **$-** | $966 | **$30,802** | $3,425 |

The assets and liabilities of discontinued operations are as follows:

| | September 30, 2011 | | | December 31, 2010 |
|---|---|---|---|---|
| | **Hospitality** | **Saskatoon** | | |
| Thousands of dollars | **Network** | **Square** | **Total** | Total |
| **Assets** | | | | |
| Cash | **$-** | **$-** | **$-** | $6,027 |
| Trade and other receivables | **-** | **-** | **-** | 2,334 |
| Prepaid expenses | **-** | **-** | **-** | 310 |
| Investments accounted for using the equity method | **-** | **-** | **-** | 1,707 |
| Property, plant and equipment | **-** | **-** | **-** | 17,015 |
| Intangible assets | **-** | **-** | **-** | 2,498 |
| Goodwill | **-** | **-** | **-** | 11,838 |
| Assets of discontinued operations | **$-** | **$-** | **$-** | $41,729 |
| **Liabilities** | | | | |
| Trade and other payables | **$-** | **$-** | **$-** | $1,635 |
| Liabilities of discontinued operations | **$-** | **$-** | **$-** | $1,635 |

The cash flows from discontinued operations are as follows:

| | Nine months ended September 30, | |
|---|---|---|
| Thousands of dollars | **2011** | 2010 |
| Cash provided by operating activities | **$43** | $6,376 |
| Cash provided by (used in) investing activities | **64,350** | (3,302) |
| Cash used in financing activities | **-** | (31) |
| | **$64,393** | $3,043 |

## Note 6 – Employee benefit obligations

Other comprehensive loss results from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plans, specifically the discount rate used to calculate the liabilities of the employee defined benefit plan and changes in the fair value of the employee benefit defined plan assets resulting from differences in the actual versus estimated return on these assets. The discount rates used are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| June 30 | **5.00%** | 5.25% | n/a |
| September 30 | **5.00** | 5.00 | n/a |
| December 31 | **n/a** | 5.25 | 6.00% |

In addition to the other comprehensive loss impact detailed below, these assumption changes have increased employee benefit obligations, partially offset by the pension income and contributions for the period.

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| Thousands of dollars | **2011** | 2010 | **2011** | 2010 |
| Actuarial gain (loss) on accrued benefit obligation | **$1,392** | $(26,892) | **$(28,425)** | $(109,517) |
| Actuarial gain (loss) on plan assets | **(55,673)** | 52,622 | **(58,803)** | 8,723 |
| Actuarial gains (losses) on employee benefit plans | **$(54,281)** | $25,730 | **$(87,228)** | $(100,794) |

### Actuarial losses recognized in other comprehensive income

| | **Nine months ended September 30,** | |
|---|---|---|
| Thousands of dollars | **2011** | 2010 |
| Cumulative amount, January 1 | **$43,033** | $- |
| Recognized during the period | **87,228** | 100,794 |
| Cumulative amount, end of period | **$130,261** | $100,794 |

## Note 7 – Commitments

### Commitments

As at September 30, 2011, the Corporation has committed to spend $51.0 million on property, plant, equipment and $4.4 million on intangible assets and $203.0 million related to future operations.

### Leases

The future minimum lease payments under non-cancellable operating leases are as follows:

| Thousands of dollars | |
|---|---|
| One year or less | **$5,167** |
| 2 to 5 years | **10,396** |
| More than 5 years | **5,751** |
| | **$21,314** |

## Note 8 – Additional financial information

### a) Statement of Financial Position

| As at<br>Thousands of dollars | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Trade and other receivables | | |
| Customer accounts receivable | $64,849 | $68,906 |
| Accrued receivables - customer | 15,003 | 23,060 |
| Allowance for doubtful accounts | (2,569) | (2,840) |
| | 77,283 | 89,126 |
| High cost serving area subsidy | 5,001 | 5,344 |
| Other | 9,353 | 10,846 |
| | $91,637 | $105,316 |
| Inventories | | |
| Inventories for resale | $8,742 | $4,376 |
| Work in progress | 2,425 | 1,194 |
| Raw materials | 305 | 240 |
| | $11,472 | $5,810 |
| Prepaid expenses | | |
| Prepaid expenses | $13,762 | $3,869 |
| Deferred service connection charges | 4,509 | 5,038 |
| | $18,271 | $8,907 |
| Trade and other payables | | |
| Trade accounts payable and accrued liabilities | $78,651 | $74,871 |
| Payroll and other employee-related liabilities | 24,511 | 29,681 |
| Other | 8,119 | 8,464 |
| | $111,281 | $113,016 |
| Services billed in advance | | |
| Advance billings | $46,744 | $43,306 |
| Deferred customer activation and connection fees | 6,533 | 7,229 |
| Customer deposits | 6,051 | 5,122 |
| | $59,328 | $55,657 |

*Note 8 – Additional financial information, continued*

**b) Supplementary cash flow information**

| Thousands of dollars | Nine months ended September 30, 2011 | 2010 |
|---|---|---|
| Net change in non-cash working capital | | |
| Trade and other receivables | **$12,472** | $8,495 |
| Inventories | **(5,662)** | (816) |
| Prepaid expenses | **(9,364)** | (4,051) |
| Trade and other payables | **(3,446)** | (16,315) |
| Services billed in advance | **3,554** | 7,679 |
| Deferred revenue | **(1,004)** | (1,016) |
| Deferred expenses | **242** | 889 |
| | **$(3,208)** | $(5,135) |

## Note 9 – Capital management

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The Corporation raises most of its capital through internally generated funds and through funds obtained from the Government of Saskatchewan Ministry of Finance, typically in the form of debt. This allows the Corporation to take advantage of the Government of Saskatchewan's strong credit rating and access to capital markets. The Saskatchewan Telecommunications Holding Corporation Act provides the Corporation with the authority to have outstanding borrowings of up to $1.3 billion, including short-term borrowings of up to $500.0 million either by way of temporary loans through the Government of Saskatchewan or through available lines of credit of $10.0 million at financial institutions.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2010, is to maintain a debt to equity ratio below 45%.

*Note 9 – Capital management, continued*

The debt ratio is as follows:

| As at<br>Thousands of dollars | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Total debt | $483,416 | $492,656 |
| Less: Sinking funds | 73,917 | 64,769 |
| Cash and short-term investments | 7,820 | 18,913 |
| Net debt | 401,679 | 408,974 |
| Equity | 623,723 | 692,381 |
| Capitalization | $1,025,402 | $1,101,355 |
| Debt ratio | 39.2% | 37.1% |

The Corporation is not subject to any externally imposed capital requirements.

## Note 10 – Related party transactions

The Corporation is indirectly controlled by the Government of Saskatchewan through its ownership of the Corporation's parent, Crown Investments Corporation of Saskatchewan (CIC). Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "government-related entities"). The Corporation has elected to take a partial exemption under IAS 24 "Related Party Disclosures" which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. For the nine months ended September 30, 2011, the aggregate amount of the Corporation's transactions with other government-related entities are approximately 6.55% of revenues, 10.24% of operating expenses and 1.12% of property, plant and equipment expenditures.

In addition, the Corporation provided management and administrative services to the Corporation's defined benefit pension plan in the amount of $0.2 million on a cost recovery basis for the nine months ended September 30, 2011 (2010 - $0.2 million), and made employer contributions of $12.0 million (2010 - $12.3 million).

## Note 11 – Transition to IFRS

The Corporation's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed financial statements were prepared as described in Notes 1 and 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Corporation will make this statement when it issues its 2011 annual financial statements.

*Note 11 – Transition to IFRS, continued*

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Corporation has applied IFRS was January 1, 2010, the date of transition. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Corporation will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters.

Below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS:

**A. IFRS 1 elections**

i. **Employee benefits**
IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, "Employee Benefits", for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under previous Canadian GAAP in opening retained earnings at the date of transition. The Corporation elected to recognize all cumulative actuarial gains and losses that existed at its date of transition in opening retained earnings for all of its defined benefit plans resulting in a decrease in deferred pension costs of $108.1 million, a decrease in trade and other payables of $15.1 million, an increase in employee benefit obligations of $100.5 million, and a corresponding decrease in retained earnings of $193.6 million.

IFRS 1 also provides the option to disclose amounts required by paragraph IAS 19 (120A(p)) as the amounts are determined for each accounting period prospectively from the date of transition to IFRS. The Corporation has elected to disclose these amounts prospectively.

ii. **Fair value or revaluation as deemed cost**
IFRS 1 provides the option to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. The Corporation elected to revalue certain items of property, plant and equipment at its date of transition. The election resulted in an increase in property, plant and equipment of $109.3 million and a corresponding increase in retained earnings.

iii. **Transfer of assets from customers**
IFRIC 18, "Transfers of Assets from Customers", requires an entity to apply the Interpretation to transfers of assets from customers received on or after July 1, 2009. Early application is permitted. IFRS 1 provides the option to apply the Interpretation as of the date of transition. The Corporation has elected to apply the Interpretation as of the date of transition, therefore transfers of assets from customers received prior to January 1, 2010 have not been reclassified in accordance with the Interpretation.

iv. **Business combinations**
IFRS 1 provides the option to apply IFRS 3, "Business Combinations", retrospectively to all combinations, to combinations from a specified date prior to the date of transition, or prospectively from the date of transition only. The Corporation elected not to retrospectively apply IFRS 3 to business combinations, jointly controlled entities and associates that occurred prior to the date of transition to IFRS, and as such business combinations have not been restated. Any goodwill arising on business combinations prior to the date of transition was tested for impairment at January 1, 2010 resulting in no goodwill impairment. Accordingly goodwill has not been adjusted from the carrying value determined under previous Canadian GAAP as a result of applying this exemption.

**B. Changes in accounting policy**

In addition to the exemptions and exceptions, the following are the significant differences between previous Canadian GAAP accounting policies and the current IFRS policies applied by the Corporation for which adjustments have been made to these financial statements:

*Note 11 – Transition to IFRS, continued*

**i. Property, plant and equipment**

a. Under previous Canadian GAAP the Corporation capitalized overheads attributable to construction and development activities. Under IAS 16 Property, Plant and Equipment only directly attributable costs can be capitalized to an item of property plant and equipment.

This adjustment resulted in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Property, plant and equipment | $(48,880) |
| Intangible assets | (2,227) |
| Assets classified as held for sale | (371) |
| Deferred revenue – government funding | (94) |
| Retained earnings | (51,384) |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Other income | $11 | $93 |
| Goods and services purchased | 2,554 | 6,587 |
| Net income from discontinued operations | (39) | (120) |

b. Under previous Canadian GAAP the Corporation was not required to capitalize borrowing costs related to qualifying assets. Under IAS 23 "Borrowing Costs" these costs are required to be capitalized. The Corporation has applied IAS 23 retroactively.

This adjustment resulted in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Property, plant and equipment | $35,692 |
| Retained earnings | 35,692 |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Finance expense | $(2,718) | $(9,130) |

c. Under previous Canadian GAAP depreciation and amortization on the majority of property, plant and equipment was computed on the straight-line basis using rates determined by a continuing program of engineering studies for each class of property in service. Under IFRS depreciation and amortization is recognized in income on the straight-line basis over the estimated useful life of each item of property, plant and equipment.

*Note 11 – Transition to IFRS, continued*

The impact of this change combined with deemed cost elections, changes to overhead capitalization and capitalization of borrowing costs has resulted in the following

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Property, plant and equipment | $(1,254) |
| Intangible assets | 1,560 |
| Assets classified as held for sale | 28 |
| Retained earnings | 334 |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Other income | $(1,152) | $(2,640) |
| Depreciation | (102) | (1,386) |
| Amortization | (553) | (1,560) |
| Net income from discontinued operations | 10 | 28 |

d. Under IFRS each part of an item of property, plant and equipment with a cost that is significant to the total cost of the item is to be depreciated separately. Upon conversion, additional components were identified, some of which had been recorded as normal repairs and maintenance under previous Canadian GAAP.

These adjustments resulted in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Assets classified as held for sale | $353 |
| Retained earnings | 353 |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Net income from discontinued operations | $20 | $59 |

**ii. Revenue**

a. Under previous Canadian GAAP directory advertising revenues were recognized in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory. Under IFRS print directory revenues must be recognized when each directory is distributed to the public.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Trade and other receivables | $10,533 |
| Services billed in advance | (1,868) |
| Retained earnings | 12,401 |

*Note 11 – Transition to IFRS, continued*

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Revenue | $2,759 | $(9,121) |

b. Under previous Canadian GAAP services contract incentives were recorded as an expense. Under IFRS these incentives must be deducted from revenue.

The Corporation has adopted this policy effective January 1, 2010 resulting in decreases in the following:

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Revenue | $(72) | $(241) |
| Goods and services purchased | (72) | (241) |

**iii. Prepaid publishing expenses**

Under previous Canadian GAAP expenses directly related to directory publications were deferred and amortized over the life of the related directory. Under IFRS these expenses must be recognized when the related directory is distributed to the public.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Prepaid expenses | $(4,022) |
| Retained earnings | (4,022) |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Goods and services purchased | $136 | $(1,107) |

**iv. Provisions**

Certain capital provisions related to health care and senior care contracts are accrued at the inception of a service provision contract. Under Canadian GAAP these provisions were recorded as incurred.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Assets classified as held for sale | $(223) |
| Liabilities classified as held for sale | 118 |
| Retained earnings | (341) |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Net income from discontinued operations | $23 | $60 |

*Note 11 – Transition to IFRS, continued*

**v. Discontinued operations**

Under IFRS prior years comparative figures in the statement of financial position are not restated for reclassification of discontinued operations. The Corporation has adjusted the opening statement of financial position to reclassify discontinued operations reported under Canadian GAAP to continuing operations under IFRS. In addition, in the year operations are designated as discontinued, under IFRS noncurrent assets and liabilities of discontinued operations are classified as current assets and liabilities respectively. Under Canadian GAAP these items are classified as noncurrent assets and liabilities respectively. The specific impacts are highlighted as discontinued operations adjustments in the reconciliations of financial position at September 30, 2010.

**vi. Joint venture accounting**

Under IFRS the equity method of accounting is used to account for joint ventures. SaskTel has deconsolidated its joint venture interest. While IFRS currently permits the use of proportionate consolidation, this method is not allowed for annual periods beginning on or after July 1, 2010.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Assets classified as held for sale | $(6,159) |
| Liabilities classified as held for sale | (6,159) |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Goods and services purchased | $163 | $498 |
| Net income from discontinued operations | 163 | 498 |

**vii. Employee benefits**

Under previous Canadian GAAP actuarial gains and losses were recognized in income based on the corridor approach. IFRS provide an option to charge actuarial gains and losses directly to other comprehensive income. The Corporation has adopted this method of recognizing actuarial gains and losses effective January 1, 2010.

In addition to the impact upon transition, the impact of employee benefits adjustments is as follows:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Deferred pension costs | $(18,411) |
| Trade and other payables | 161 |
| Employee benefits | 87,522 |
| Retained earnings | (106,094) |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Salaries wages and benefits | $1,766 | $5,300 |
| Other comprehensive income (loss) | 25,730 | (100,794) |

*Note 11 – Transition to IFRS, continued*

**viii. Customer contributions**

Under previous Canadian GAAP transfers of assets from customers (i.e. customer contributions) were recorded as a reduction of property, plant and equipment. Under IFRIC 18 Transfer of Assets from Customers, the corresponding adjustment on receipt of the asset is recognized as revenue when the customer is connected to the network.

The Corporation has adopted this policy effective January 1, 2010 resulting in the following:

| Thousands of dollars | September 30, 2010 |
|---|---|
| Increase (decrease) | |
| Property, plant and equipment | $724 |
| Retained earnings | 724 |

| Thousands of dollars | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|
| Increase (decrease) | | |
| Revenue | $286 | $724 |

**C. Presentation**

IFRS requires that expenses be classified either by nature or by function for presentation. SaskTel has selected classification by nature. In addition, other reclassifications were required to conform with disclosure requirements for other income and net finance expense.

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. Reconciliations from Canadian GAAP to IFRS for the respective periods are as follows:

**Reconciliation of Province of Saskatchewan's equity**

| Thousands of dollars | Reference | September 30, 2010 |
|---|---|---|
| Province's equity under Canadian GAAP | | $822,757 |
| Employee benefits | A(i),B(vii) | (299,654) |
| Deemed cost | A(ii) | 109,280 |
| Directly attributable costs | B(i)(a) | (51,384) |
| Borrowing costs | B(i)(b) | 35,692 |
| Revenue recognition | B(ii)(a) | 12,401 |
| Prepaid publishing costs | B(iii) | (4,022) |
| Componentization | B(i)(d) | 353 |
| Provisions | B(iv) | (341) |
| Customer contributions | B(viii) | 724 |
| Depreciation | B(i)(c) | (1,226) |
| Amortization | B(i)(c) | 1,560 |
| Province's equity under IFRS | | $626,140 |

*Note 11 – Transition to IFRS, continued*

**Reconciliation of net income**

| Thousands of dollars | Reference | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|---|
| Net income under Canadian GAAP | | $51,235 | $134,483 |
| Employee benefits expenses | B(vii) | (1,766) | (5,300) |
| Directly attributable costs | B(i)(a) | (2,582) | (6,614) |
| Borrowing costs | B(i)(b) | 2,718 | 9,130 |
| Revenue recognition | B(ii)(a) | 2,759 | (9,121) |
| Prepaid publishing costs | B(iii) | (136) | 1,107 |
| Componentization | B(i)(d) | 20 | 59 |
| Provisions | B(iv) | 23 | 60 |
| Customer contributions | B(viii) | 286 | 724 |
| Depreciation | B(i)(c) | (1,040) | (1,226) |
| Amortization | B(i)(c) | 553 | 1,560 |
| Net income under IFRS | | $52,070 | $124,862 |

**Reconciliation of comprehensive income**

| Thousands of dollars | Reference | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|---|---|---|---|
| Comprehensive income under Canadian GAAP | | $51,235 | $134,483 |
| Differences in net income | | 835 | (9,621) |
| Employee benefits expenses | B(vii) | 25,730 | (100,794) |
| Comprehensive income under IFRS | | $77,800 | $24,068 |

**Reconciliation of cash flow**

| Thousands of dollars | Nine months ended September 30, 2010 |
|---|---|
| Net change in cash under Canadian GAAP | $6,105 |
| Differences increasing (decreasing) reported net change in cash: | |
| Net income | (10,146) |
| Cash from operating activities | 12,824 |
| Cash from investing activities | (3,264) |
| Cash from financing activities | 88 |
| Cash from discontinued operations | 371 |
| Net change in cash under IFRS | $5,978 |

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS:

*Note 11 – Transition to IFRS, continued*

**Reconciliation of the consolidated statement of comprehensive income for the three months ended September 30, 2010**
Thousands of dollars

| Canadian GAAP accounts | Reference | Canadian GAAP balance | IFRS Adjustmetns | | | IFRS balance | IFRS accounts |
|---|---|---|---|---|---|---|---|
| | | | Mandatory | Elective | Other[C] | | |
| Operating revenues | B(ii)(a,b),B(viii) | $279,799 | $2,973 | $- | $- | $282,772 | Revenue |
| | B(i)(a,c) | - | (1,141) | - | 2,893 | 1,752 | Other income |
| | | 279,799 | 1,832 | - | 2,893 | 284,524 | |
| Operating expenses | | | | | | | Expenses |
| Operations | B(i)(a),B(ii)(b),B(iii), B(vi) | 188,985 | 2,781 | - | (71,373) | 120,393 | Goods and services purchased |
| | B(vii) | - | - | 1,766 | 76,177 | 77,943 | Salaries, wages and benefits |
| Depreciation and amortization | B(i)(c) | 39,460 | (102) | - | (5,793) | 33,565 | Depreciation |
| | B(i)(c) | | (553) | - | 5,793 | 5,240 | Amortization |
| | | - | - | - | (4,804) | (4,804) | Internal labour capitalized |
| | | 228,445 | 2,126 | 1,766 | - | 232,337 | |
| Income from operations | | 51,354 | (294) | (1,766) | 2,893 | 52,187 | Results of operating activities |
| Other items | | 3,140 | - | - | (3,140) | - | |
| Interest and related items | B(i)(b) | (4,048) | 2,718 | - | 247 | (1,083) | Net finance expense |
| Income from continuing operations | | 50,446 | 2,424 | (1,766) | - | 51,104 | Income from continuing operations |
| Net income from discontinued operations | B(i)(a,c,d), B(iv),B(vi) | 789 | 177 | - | - | 966 | Net income from discontinued operations |
| Net income | | 51,235 | 2,601 | (1,766) | - | 52,070 | Net income |
| Other comprehensive income | B(vii) | - | - | 25,730 | - | 25,730 | Other comprehensive income Defined benefit plan actuarial gains |
| Comprehensive income | | $51,235 | $2,601 | $23,964 | $- | $77,800 | Total comprehensive income |

*Note 11 – Transition to IFRS, continued*

**Reconciliation of the consolidated statement of comprehensive income for the nine months ended September 30, 2010**
Thousands of dollars

| | | | IFRS Adjustments | | | | |
|---|---|---|---|---|---|---|---|
| **Canadian GAAP accounts** | **Reference** | **Canadian GAAP balance** | **Mandatory** | **Elective** | **Other[C]** | **IFRS balance** | **IFRS accounts** |
| Operating revenues | B(ii)(a,b),B(viii) | $830,307 | $(8,638) | $- | $- | $821,669 | Revenue |
| | B(i)(a,c) | - | (2,547) | - | 11,025 | 8,478 | Other income |
| | | 830,307 | (11,185) | - | 11,025 | 830,147 | |
| Operating expenses | | | | | | | Expenses |
| Operations | B(i)(a),B(ii)(b),B(iii), B(vi) | 580,560 | 5,737 | - | (231,864) | 354,433 | Goods and services purchased |
| | B(vii) | - | - | 5,300 | 244,657 | 249,957 | Salaries, wages and benefits |
| Depreciation and amortization | B(i)(c) | 116,773 | (1,386) | - | (17,186) | 98,201 | Depreciation |
| | B(i)(c) | | (1,560) | - | 17,186 | 15,626 | Amortization |
| | | - | - | - | (12,793) | (12,793) | Internal labour capitalized |
| | | 697,333 | 2,791 | 5,300 | - | 705,424 | |
| Income from operations | | 132,974 | (13,976) | (5,300) | 11,025 | 124,723 | Results of operating activities |
| Other items | | 11,967 | - | - | (11,967) | - | |
| Interest and related items | B(i)(b) | (13,358) | 9,130 | - | 942 | (3,286) | Net finance expense |
| Income from continuing operations | | 131,583 | (4,846) | (5,300) | - | 121,437 | Income from continuing operations |
| Net income from discontinued operations | B(i)(a,c,d),B(iv),B(vi) | 2,900 | 525 | - | - | 3,425 | Net income from discontinued operations |
| Net income | | 134,483 | (4,321) | (5,300) | - | 124,862 | Net income |
| Other comprehensive income | B(vii) | - | - | (100,794) | - | (100,794) | Other comprehensive income Defined benefit plan actuarial losses |
| Comprehensive income | | $134,483 | $(4,321) | $(106,094) | $- | $24,068 | Total comprehensive income |

# Notes to Condensed Consolidated Financial Statements (Unaudited)
## As at September 30, 2011

*Note 11 – Transition to IFRS, continued*

**Reconciliation of the consolidated statement of financial position as of September 30, 2010**
Thousands of dollars

| | | | IFRS Adjustments | | | | |
|---|---|---|---|---|---|---|---|
| **Canadian GAAP accounts** | **Reference** | **Canadian GAAP** | **Discontinued operations[B(v)]** | **Mandatory** | **Elective** | **IFRS** | **IFRS accounts** |
| Assets | | | | | | | Assets |
| Current assets | | | | | | | Current assets |
| Cash | | $9,191 | $- | $- | $- | $9,191 | Cash and cash equivalents |
| Accounts receivable | B(ii)(a) | 88,315 | - | 10,533 | - | 98,848 | Trade and other receivables |
| Inventories | | 8,837 | - | - | - | 8,837 | Inventories |
| Prepaid expenses | B(iii) | 18,063 | - | (4,022) | - | 14,041 | Prepaid expenses |
| Current assets of discontinued operations | B(i)(a,c,d), B(iv),B(vi) | 8,216 | 39,354 | (6,372) | - | 41,198 | Assets classified as held for sale |
| | | 132,622 | 39,354 | 139 | - | 172,115 | |
| Property, plant and equipment | A(ii),B(i)(a, b,c), B(viii) | 1,030,806 | - | (13,718) | 109,280 | 1,126,368 | Property, plant and equipment |
| Intangible assets – finite-life | B(i)(a,c) | 65,060 | - | (667) | 72,057 | 136,450 | Intangible assets |
| Long-lived assets of discontinued operations | | 39,354 | (39,354) | - | - | - | |
| Intangible assets – indefinite-life | | 65,981 | - | - | (65,981) | - | |
| Goodwill | | 6,076 | - | - | (6,076) | - | |
| Sinking funds | | 63,778 | - | - | - | 63,778 | Sinking funds |
| Deferred pension costs | A(i),B(vii) | 126,556 | - | - | (126,556) | - | |
| Other assets | | 10,146 | - | - | - | 10,146 | Other assets |
| | | $1,540,379 | $- | ($14,246) | $(17,276) | $1,508,857 | |
| Liabilities and Province's equity | | | | | | | Liabilities and Province's equity |
| Current liabilities | | | | | | | Current liabilities |
| Accounts payable and accrued liabilities | A(i),B(vii) | $112,933 | $- | $- | $(14,945) | $97,988 | Trade and other payables |
| Notes payable | | 56,900 | - | - | - | 56,900 | Notes payable |
| Dividend payable | | 48,725 | - | - | - | 48,725 | Dividend payable |
| Services billed in advance | B(ii)(a) | 58,235 | - | (1,868) | - | 56,367 | Services billed in advance |
| Current liabilities of discontinued operations | B(iv),B(vi) | 2,447 | 5,687 | (6,041) | - | 2,093 | Liabilities classified as held for sale |
| | | 279,240 | 5,687 | (7,909) | (14,945) | 262,073 | |
| Non-current liabilities of discontinued operations | | 5,687 | (5,687) | - | - | - | |
| Deferred revenue | | 8,130 | - | - | - | 8,130 | Deferred revenue |
| Deferred revenue -government funding | B(i)(a) | 41,600 | - | (94) | - | 41,506 | Deferred revenue – government funding |
| | A(i),B(vii) | - | - | - | 188,043 | 188,043 | Employee benefits |
| Long-term debt | | 382,965 | - | - | - | 382,965 | Long-term debt |
| | | 717,622 | - | (8,003) | 173,098 | 882,717 | |
| Province of Saskatchewan's equity | | | | | | | Province of Saskatchewan's equity |
| Equity advance | | 250,000 | - | - | - | 250,000 | Equity advance |
| Retained earnings | | 572,757 | - | (6,243) | (190,374) | 376,140 | Retained earnings |
| Accumulated other comprehensive income | | - | - | - | - | - | Accumulated other comprehensive income |
| | | 822,757 | - | (6,243) | (190,374) | 626,140 | |
| | | $1,540,379 | $- | $(14,246) | $(17,276) | $1,508,857 | |